

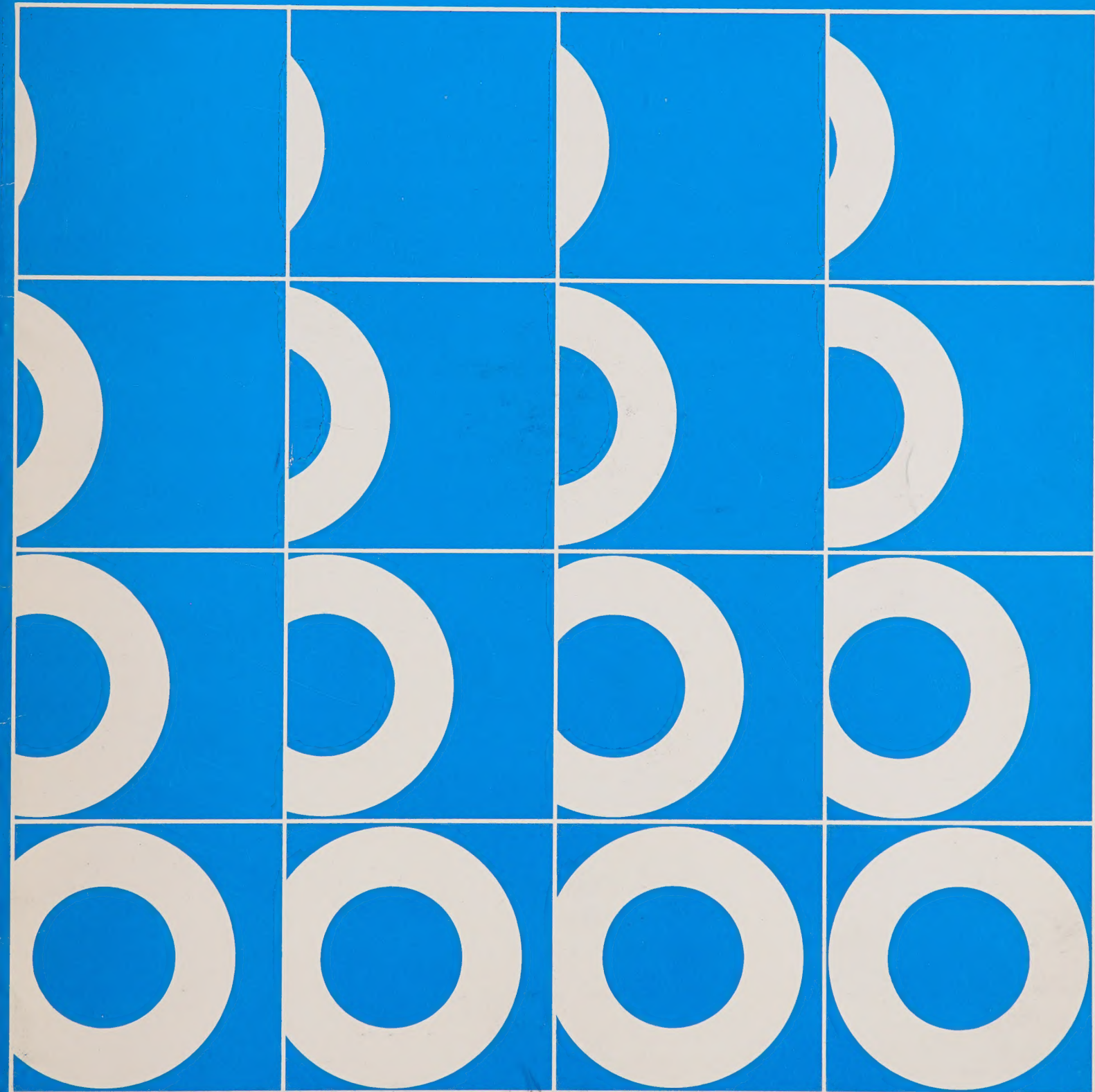
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PHH
CANADA

PHH
Peterson, Howell & Heather
(Canada) Limited

Annual Report
For the year ended
August 31, 1972

Cancorp





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Financial Highlights

For the year ended August 31, 1972

	1972	1971
Net investment in leased vehicles (year-end)	\$24,833,000	\$22,323,000
Vehicle rentals	11,254,000	9,889,000
Net income	395,000	305,000
Increase over previous year	29.5%	12.5%
Earnings per share	60c	49c
Cash dividends paid	126,000	108,000
Per share	19c	18c
Stock dividends	—	5%
Shares outstanding (year-end)	668,824	637,600
Average for the year	658,948	627,259

Directors

William J. Bennett
Montreal, Que.

John N. Cole
Montreal, Que.

*Frank B. Common, Jr., Q.C.
Montreal, Que.

F. Campbell Cope, Q.C.
Montreal, Que.

Jerome W. Geckle
Baltimore, Md.

George A. Goad
Montreal, Que.

*William H. Hill
Baltimore, Md.

*John S. Lalley
Baltimore, Md.

J. Angus Ogilvy, Q.C.
Montreal, Que.

Lloyd P. Rogers
Montreal, Que.

Richard R. Smith
Montreal, Que.

Lloyd B. Taft
New York, N.Y.

Officers

Frank B. Common, Jr., Q.C.
Chairman of the Board

John S. Lalley
President

Lloyd P. Rogers
Executive Vice-President

William H. Hill
Vice-President—Finance

R. Keith Price
Vice-President—Sales

Richard R. Smith
*Vice-President—Administration
& Planning and Treasurer*

Robert L. Arlein
Assistant Vice-President

Hudson P. Goodbody
Assistant Vice-President

Paul St-Julien, C.A.
Comptroller

Robert L. Munro
Secretary

Miss Eileen M. Crosby
Assistant-Secretary

Miss G. Ruth Hanson
Assistant-Treasurer

Head Office
4999 St. Catherine Street West,
Montreal 215, Que.

Registrar, Transfer Agent and
Dividend Disbursing Agent
Montreal Trust Company,
Montreal, Que.

Auditors
Clarkson, Gordon & Co.

*Members of the Executive Committee

Directors' Report To Shareholders

As a result of continued growth and an extension of the Company's range of services, we are pleased to report another record year.

Total rentals from leased vehicles increased by 13.8% and for the first time in the Company's history, exceeded \$11 million. In September, 1971, the administration of the tire purchase program was transferred to Canada and this, combined with expanded volume for the maintenance program, initiated in April, 1971, accounted for the major part of the 63% increase in fees from management services.

After providing \$8,145,000 for depreciation on leased vehicles, net revenue for the year totalled \$3,336,000, an increase of 10.2% over the previous year's total of \$3,026,000. Reflecting the trend to higher interest rates that was apparent at the end of the previous fiscal period, total interest expense of \$1,548,000 was 10.6% ahead of the previous year. All other operating expenses rose by a modest 4.8% and as a result, income before income taxes at \$755,000 showed an increase over the prior year of 18%.

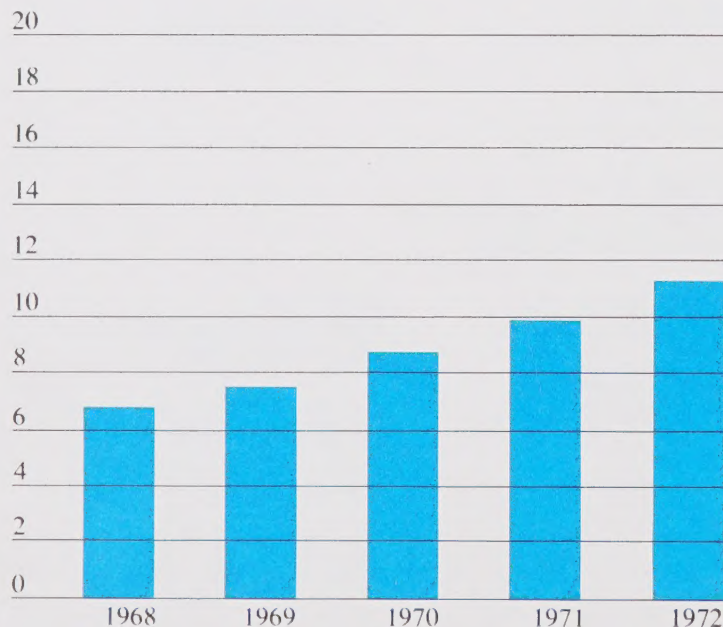
The provision for income taxes after taking account of the reductions introduced in the federal budget amounted to \$360,000 or 47.7% of the pre-tax profits as against last year's provision at the rate of 52.3% of pre-tax earnings. As a result of this lower provision for tax, net income for the year at \$395,000 showed an increase of 29.5%. Earnings per share were 60c as against the previous year's 49c.

During the year, quarterly dividends at the rate of 4½c per share were paid on the Class A and Class B shares outstanding which, together with a year end extra of 1c per share, made a total for the year of 19c per share as against 18c per share in fiscal 1971. Total dividends paid of \$126,000 represented 31.9% of the year's net income.

The Company's net investment in leased vehicles increased by 11.2% and at the year end amounted to \$24,833,000. As leased vehicles are replaced, the straight line depreciation rates introduced in September, 1970 become effective and as a consequence, the net investment in leased vehicles at the year end was 64.9% of original cost as against a ratio of 66.0% at the previous year end. The straight line provision for depreciation coupled with flexibility in depreciation rates enables our clients to anticipate the particular service conditions of individual vehicles and has further improved the overall acceptability of the Company's leasing program.

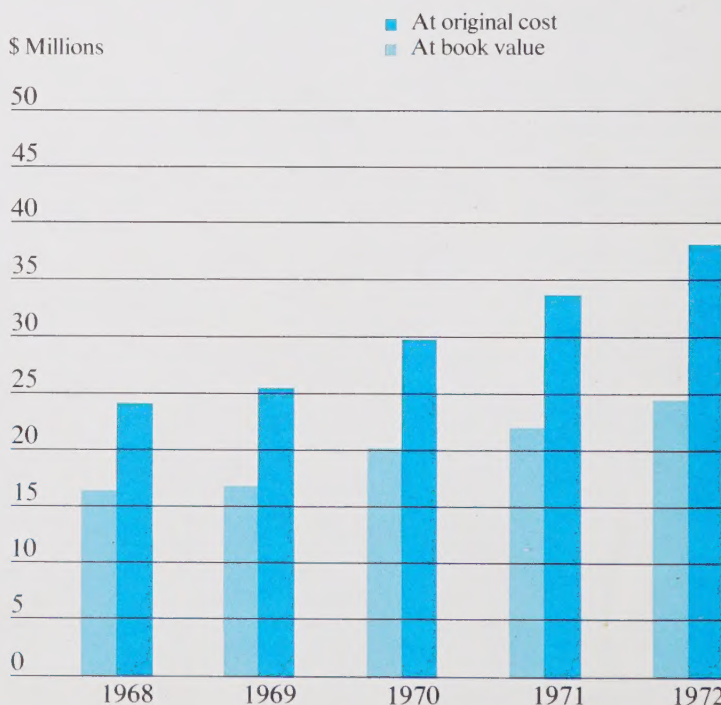
Vehicle rentals

\$ Millions



Investment in leased vehicles

\$ Millions

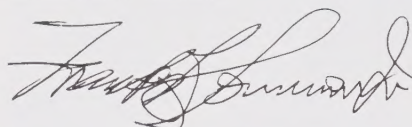


The financing arrangements concluded last year with the automobile manufacturers have provided additional flexibility in the Company's ability to finance the leasing requirements of clients. At the year end, further flexibility was introduced with documentation being completed for financing by a second Canadian bank. As at August 31, borrowed funds totalled \$21,230,000 or 85.5% of the book value of leased vehicles. A year ago, borrowings totalled \$19,776,000 or 88.6% of the net investment in leased vehicles.

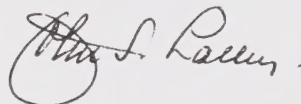
From time to time, a number of the Company's clients and clients of our U.S. affiliated company have expressed interest in having available Fleet Management and Leasing programs in some of the other countries in which they operate. As a result of these expressions of interest, Company personnel conducted a market study in the United Kingdom, Belgium and West Germany. The market survey indicated that the opportunities for introducing the PHH Fleet Management programs in Europe are excellent and since the year end, your Company has agreed to participate with Peterson, Howell & Heather, Incorporated in setting up the first overseas operation in Britain.

Your Company's initial investment in the overseas venture will be \$45,000 with the balance of the capital being provided by PHH, Inc. and a consortium of U.K. financial institutions. In addition to its capital contribution, the Company will make available from time to time certain personnel to assist in developing the overseas operation. Your directors view this first overseas operation as a further opportunity to broaden the scope of the Company and as an essential step in improving its ability to service the needs of its multi-national clients.

The results of the past year would not have been possible without the dedication and determined efforts of the entire staff which your directors acknowledge on behalf of all shareholders. As the Company's business grows, the staff will be augmented by careful selection and training to ensure a continuing ability to serve the needs of our clients.



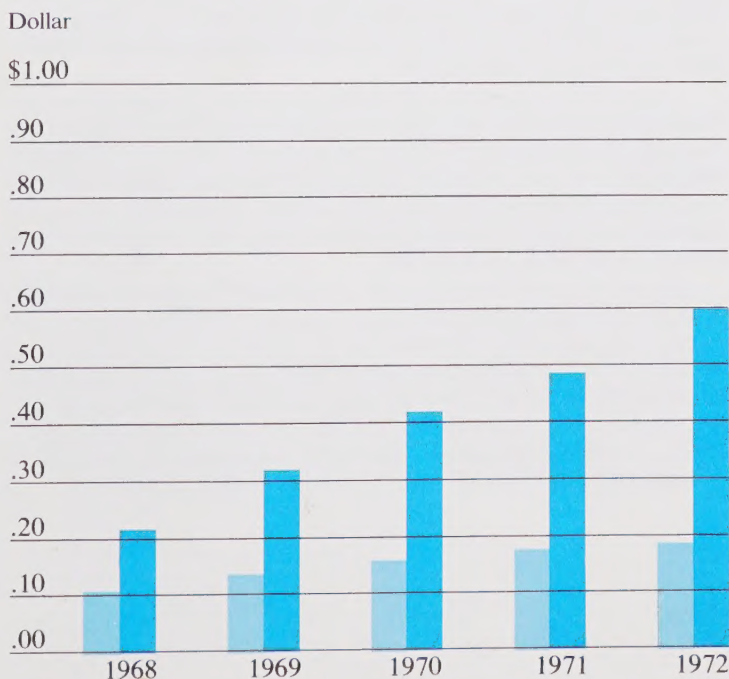
Chairman of the Board



President

October 26, 1972

■ Earnings per share
■ Cash dividends per share



The Company and its Clients

Fleet Management Services

- The selection of cars and equipment
- Replacement scheduling
- Care and maintenance
- Control over the buying and selling operation
- Overall control of operating expenses
- Administration of warranty claims
- Advice on ownership versus leasing



As part of a continuing effort to ensure that the PHH Fleet Management programs will fully meet the requirements of clients, the dealer network was expanded and the Company's capability was strengthened by the appointment of two regional buying managers. At the year end, the Company managed on behalf of clients a total of 10,335 vehicles.

A major objective of the fleet management program is to serve the actual needs of the client but equally important is that the program be cost effective. As a means of measuring cost effectiveness, the PHH Auto Expense Control system has maintained its position of leadership. In 1971, the Auto Expense Control system was

improved to provide exception reporting and constantly updated annual averages. As with most ambitious new concepts, these innovations were not introduced without some start-up problems; however, by the year end, the new program was fully operative and now provides clients with an effective means of evaluating their total fleet operations.

Automotive Services

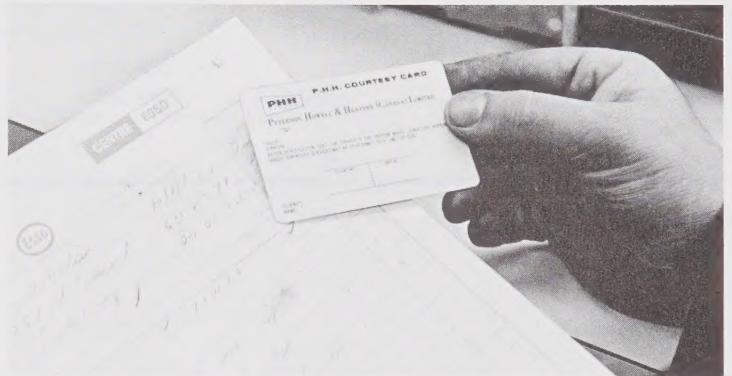
The objective of this department is to provide clients with facilities for tire purchases and routine maintenance at competitive prices on a national basis. The Goodyear plan allows us to offer clients a program for the purchase of tires at substantial discounts at hundreds of strategic locations throughout Canada. In



addition to tire purchases, the Goodyear stores will undertake wheel alignment and brake repairs. The widespread use of longer lasting polyester-fiberglass tires tended to reduce the number of replacement tires purchased but overall volume of this program was increased by the addition of new clients.

The maintenance program available through Imperial Centres achieved noteworthy acceptance in its first full year of operation. This program provides clients with mechanical maintenance facilities at discounted predetermined charges for both parts and labour. The maintenance work is subject to strict quality control and with minor exceptions, all work is guaranteed by Imperial Oil.

A further refinement planned for the early part of next fiscal year will be the introduction of a new PHH Courtesy Card which will be available for use at both Goodyear stores and Imperial Centres.



Use of the single card for both maintenance and tire purchases will eliminate the need for client representatives to carry two separate credit cards and will also simplify the billing procedure for these services.

Truck Plan Management and Leasing

A more recent expansion of our vehicle management and leasing services has been assistance to clients for their truck and mobile equipment requirements. Modeled after the car plan, the PHH truck service includes financial analysis of ownership as compared to leasing, assistance in determining equipment specifications and purchase and disposal of trucks and equipment. Steady expansion of the truck services is anticipated.

The services outlined above currently cover the major areas of our endeavors. However, the programs are under continual review to assess opportunities for introducing improvements to existing services or providing additional related services.

Consolidated Balance Sheet

August 31, 1972

Assets	1972		1971	
Leased Vehicles (note 1)				
Original cost	\$38,280,000		\$33,806,000	
Accumulated depreciation	13,447,000	\$24,833,000	11,483,000	\$22,323,000
Other Fixed and Miscellaneous Assets				
Furniture, leasehold improvements and automobiles at cost less accumulated depreciation	54,000		50,000	
Cash surrender value of life insurance	—		40,000	
Prepaid expenses	4,000	58,000	5,000	95,000
Cash and Receivables				
Accounts receivable	256,000		161,000	
Cash on deposit with Trustee (note 2)	34,000		203,000	
Cash	174,000	464,000	139,000	503,000
		\$25,355,000		\$22,921,000

See accompanying notes

Approved on behalf of the Board:
Frank B. Common, Jr., Director
John S. Lalley, Director

Liabilities and Shareholders' Equity

1972

1971

Borrowed Funds*Payable on demand or within one year*

Bank demand loan (note 2)

\$ 2,100,000

\$ 1,000,000

Debentures payable within one year

752,000

655,000

2,852,000

1,655,000

Long-term

Debentures less amount payable

within one year (note 2)

14,107,000

14,204,000

Loans of subsidiaries (note 3)

4,271,000

\$21,230,000

3,917,000

\$19,776,000

Accounts Payable and Accrued Charges

664,000

415,000

Deferred Income Taxes

1,758,000

1,398,000

Shareholders' Equity

Capital stock (note 4)

925,000

823,000

Retained earnings

778,000

1,703,000

509,000

1,332,000

\$25,355,000

\$22,921,000

Auditors' Report

To the Shareholders of
Peterson, Howell & Heather
(Canada) Limited:

We have examined the consolidated balance sheet of Peterson, Howell & Heather (Canada) Limited and its subsidiaries as at August 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Montreal, Canada,
October 16, 1972.

Consolidated Statement of Income

For the year ended August 31, 1972

	1972	1971
Income from vehicle rentals	\$11,254,000	\$9,889,000
Less depreciation on leased vehicles	8,145,000	7,002,000
Net rental income	3,109,000	2,887,000
Fees from management services	227,000	139,000
	3,336,000	3,026,000
Interest on debentures	1,126,000	1,072,000
Interest on loans of subsidiaries	350,000	333,000
Net short-term interest	72,000	(5,000)
Operating expenses	1,015,000	969,000
Depreciation on miscellaneous fixed assets	18,000	17,000
	2,581,000	2,386,000
Income before income taxes	755,000	640,000
Income taxes	360,000	335,000
Net income for the year	\$ 395,000	\$ 305,000
Earnings per share	60c	49c

Consolidated Statement of Retained Earnings

For the year ended August 31, 1972

	1972	1971
Balance—beginning of year	\$ 509,000	\$ 403,000
Add net income for the year	395,000	305,000
	904,000	708,000
Less dividends paid:		
Stock dividends	—	91,000
Cash dividends—Class A shares	107,000	90,000
Class B shares	19,000	18,000
	126,000	199,000
Balance—end of year	\$ 778,000	\$ 509,000
See accompanying notes		

Consolidated Statement of Source and Application of Funds

For the year ended August 31, 1972

	1972	1971
Funds Provided		
<i>Operations</i>		
Net income for the year	\$ 395,000	\$ 305,000
Deferred income taxes	360,000	335,000
Depreciation on miscellaneous fixed assets	18,000	17,000
Net change in receivables less payables	154,000	248,000
Depreciation on leased vehicles	8,145,000	7,002,000
Sale proceeds on leased vehicles	5,424,000	4,684,000
	14,496,000	12,591,000
<i>Borrowed funds</i>		
Net increase in loans of subsidiaries	354,000	644,000
Increase in bank demand loan	1,100,000	500,000
	1,454,000	1,144,000
<i>Share capital</i>		
Sale of Class A shares (note 4)	102,000	46,000
	\$16,052,000	\$13,781,000
Funds Applied		
Purchase of leased vehicles	\$16,079,000	\$13,525,000
Net additions to (reduction in) miscellaneous assets	(19,000)	15,000
Cash dividends	126,000	108,000
	16,186,000	13,648,000
Increase (decrease) in cash	(134,000)	133,000
	\$16,052,000	\$13,781,000

See accompanying notes

Notes

To Consolidated Financial Statements
August 31, 1972

1 Valuation of leased vehicles

Straight line depreciation rates on leased vehicles are related to the terms of the leases. All vehicles placed in service since September, 1970 are being depreciated over their estimated service lives, which in the case of passenger cars is from 40 to 50 months, and in the case of trucks, tractors and trailers 40 to 80 months. Each lease provides that any profit or loss on disposal of leased vehicles shall be refunded to or paid by the lessee as a rental adjustment.

2 Debentures outstanding

	1972	1971
6.25% Series I	\$ 1,555,000	\$ 1,555,000
7.50% Series J	2,800,000	2,800,000
8.00% Series K (\$700,000 U.S.)	754,000	754,000
7.97% Series L (7.53% in 1971)	9,750,000	9,750,000
	14,859,000	14,859,000
Amount payable within one year	752,000	655,000
	\$14,107,000	\$14,204,000

In addition to the debentures outstanding as above, the Company has issued \$3,000,000 of 8.00% Series RBC debentures which are payable on demand and are held under a pledge agreement by The Royal Bank of Canada. Under the provisions of the Trust Deed the Series RBC debentures are considered outstanding only to the amount required to be paid to release them from pledge, which at August 31, 1972 was \$2,100,000, being the amount of the outstanding demand loan from the Company's bankers.

The debentureholder waived the sinking fund payments due May, 1972 on the Series K debentures and July, 1972 on the Series I and Series J debentures and the future sinking fund payments on these Series were adjusted to reflect this deferral.

The debentures are secured by an assignment of the rentals on leased vehicles. As rentals are received they are deposited with the Trustee for the debentureholders and are withdrawn in accordance with the terms of the Trust Deed.

Debentures of Series L mature three years after the date on which a demand is made by either

- (a) the debentureholders by written notice to the Company, or
- (b) the Company by written notice to the Trustee for the debentureholders. As at August 31, 1972 no such demand had been made.

Debentures of Series I to K mature as follows:

	Annual Principal Payment	Period	Residual Principal Maturity
Series I	\$ 258,000	1973 to 1977 inclusive	July 31, 1978
Series J	\$ 400,000	1973 to 1978 inclusive	July 31, 1979
Series K	\$ 87,000 U.S.	1973 to 1979 inclusive	May 31, 1980

The principal payments required in each of the next five years are \$658,000 and \$87,000 U.S.

3 Loans of subsidiary companies

Two wholly-owned leasing subsidiaries finance their purchases of leased vehicles by borrowings under four separate loan agreements. The borrowings are secured by assignments of the rentals payable on the leased vehicles and liens on the vehicles themselves. The loan agreements contemplate that additional advances will be made from time to time as additional leased vehicles are purchased or existing vehicles are replaced. The funds have been advanced at various rates of interest from 7.00% to 10.50%.

Because the repayments required on these loans are related to amounts to be received in respect of the leased vehicles financed by these loans, no portion of the loans is shown as due within one year on the accompanying consolidated balance sheet. Since the length of time individual leased vehicles will be in service is not known, an accurate calculation of the principal repayments which will be made in each of the next five years is not feasible.

4 Capital stock

The authorized capital of the Company consists of: 1,000,000 Class A shares without par value and 100,000 Class B shares without par value.

The Class B shares are convertible into Class A shares on a share for share basis. Conversion may take place at any time up to and including June 30, 1980 and under certain circumstances conversion must take place earlier, but in any event all Class B shares will be converted by June 30, 1980. Class A shares are entitled to one vote per share and Class B shares are entitled to 100 votes per share.

During the year, 31,224 Class A shares were issued for a cash consideration of \$102,000.

The issued and fully paid capital as at August 31 was:	1972	1971
568,824 Class A shares (537,600 in 1971)	\$825,000	\$723,000
100,000 Class B shares	100,000	100,000
	\$925,000	\$823,000

5 Remuneration of directors and officers

The total remuneration paid to the twelve directors for their services as directors during the year was \$40,000. The total remuneration paid to the officers as a group (eight persons of whom five were directors) for their services as officers during the year was \$126,000.

6 Subsequent events

After the year end the Company subscribed for shares in two companies in the United Kingdom which have been formed to offer fleet management and leasing services in that country. The initial investment amounted to £18,000. The shares of one of these companies are partly paid-up and at the discretion of the directors of that company, further calls may be made involving a maximum further investment of £90,000.

5 Year Review

Years ending August 31

	1972	1971	1970	1969	1968
Investment in Leased Vehicles					
Original cost	\$38,280,000	\$33,806,000	\$29,913,000	\$25,590,000	\$24,219,000
Book value	24,833,000	22,323,000	20,484,000	17,153,000	16,627,000
Book value as a percentage of original cost	64.9%	66.0%	68.5%	67.0%	68.7%
Borrowed Funds					
Secured	21,230,000	19,776,000	18,132,000	15,476,000	15,054,000
Unsecured	—	—	500,000	200,000	600,000
Total	21,230,000	19,776,000	18,632,000	15,676,000	15,654,000
Borrowed funds as a percentage of book value of leased vehicles	85.5%	88.6%	91.0%	91.4%	94.1%
Shareholders' Equity	1,703,000	1,332,000	1,089,000	852,000	699,000
Equity per share (adjusted for stock dividends)	2.55	2.09	1.75	1.43	1.20
Operating Results					
Income from vehicle rentals	11,254,000	9,889,000	8,666,000	7,462,000	6,789,000
Depreciation on leased vehicles	8,145,000	7,002,000	6,141,000	5,397,000	4,979,000
Net rental income	3,109,000	2,887,000	2,525,000	2,065,000	1,810,000
Fees from management services	227,000	139,000	117,000	102,000	39,000
Interest expense	1,548,000	1,400,000	1,164,000	1,013,000	963,000
All other expenses	1,033,000	986,000	905,000	737,000	600,000
Net income	395,000	305,000	271,000	201,000	141,000
Earnings per share	60c	49c	44c	34c	24c
Cash dividends per share	19c	18c	16c	14c	11c

Peterson, Howell & Heather
(Canada) Limited
*4999 St. Catherine Street West,
Montreal 215, Que.*

Affiliated Company in USA:

Peterson, Howell & Heather,
Inc.
*2701 North Charles Street,
Baltimore, Maryland 21218*